Summary of Comments

We received sixty comment letters from a wide range of industry participants. Please see Appendix A for a full list of commenters.

COMMENT LETTERS

Dealers	15
Buy-side	14
Issuers	6
Associations	7
Competitors	2
Other (individuals, vendors)	16
Total Letters	**60**

OSC Request for Comments – Specific Questions Raised

1. ***Benefits and obligations of designated market makers (DMM) -*** **comment was requested regarding whether it is appropriate to have obligations with respect to the Dark Book and dark pools generally and whether it is appropriate to have benefits in the Dark Book but no obligations.**

<u>Comments on obligations in the Dark Book or dark pools generally</u>

- Obligations are not required in the Dark Book (or any dark venue) because of the nature of market making obligations, i.e., if in the dark, they would not contribute to the goals of market efficiency and price discovery nor help stabilize pricing [D. Allan, BMO NB, CFA, CI, CIBC WM, CSTA, KOR Group, NBF, RBC CM, TMX]
- There is no benefit to obligations in the dark [D. Allan, Maison]
- Unnecessary as trades do not occur outside the NBBO [Barclays, CI, KOR Group, TMX]
- It would contradict the purpose of dark pools, i.e. to limit information leakage and market impact [Barclays]
- Market making has never been associated with dark pools [CIBC WM, RBC CM, RBC GAM]
- Market makers have a general obligation to maintain fair and orderly markets across all books [Barclays]
- It is appropriate to have obligations in the Dark Book and dark pools as market participants have an expectation that their orders will fill at the current market – in all markets, displayed or non-displayed – but that the obligations in the non-displayed are supplemental to those in the displayed markets [Virtu]

<u>Comments on benefits without obligations</u>

- Benefits should be linked to obligations [CFA, CSTA, TD]
- Acceptable because it supports the incentive for market makers to provide services in the displayed books [D. Allan, BBS Securities, Davis Rea, KOR Group, Maison, NBF]
- Benefit is balanced by fact that the market maker must provide price improvement in the Dark Book and pay active fees [GLC, RBC CM, RBC GAM]

- Appropriate since the DMM program should be viewed across all books [BBS Securities, CSTA, OMERS, RBC CM]
- Agree with so long as total benefits and obligations are balanced [Davis Rea, Jitneytrade, RBC GAM, Scotiabank] and there is ongoing evaluation of DMM program [Davis Rea, GLC, WDL]

Aequitas Response

Most commenters supported our view that obligations are not appropriate or necessary with respect to non-displayed trading and, in contrast, can have negative effects. Although a number were also not concerned that there would be benefits without specific corresponding obligations in the Dark Book, some raised concerns that it was not appropriate for market makers to have benefits applied there. In consideration of this concern we will not, at this time, apply the MMVA in the Dark Book. We agree, however, with the comment that DMMs have a general obligation to maintain orderly markets that crosses all trading books and that monitoring is critical to ensure that benefits and obligations are balanced.

OSC Staff Comments

We agree that DMMs should not have obligations specific to a non-transparent marketplace, as this could effectively confirm to market participants that market makers are present and actively providing liquidity in this marketplace. This, in turn, is inconsistent with the nature of a dark market, where no guarantee of liquidity is provided, as one of the trade-offs of trading "in the dark".

Staff are of the view, however, that benefits for DMMs are not justified in a market where they have no performance obligations, such as the Dark Book. We have reviewed the revised Trading Policies and are satisfied that they reflect the removal of the MMVA in the Dark Book.

2. ***Market makers' commitment (MMC)*** **- comment was requested about whether the MMC feature provides too great an incentive to the market maker at the expense of the existing orders in the book.**

Comments

- Benefits of MMC include that it would: enhance market quality by providing more liquidity [Barclays, BBS Securities, Maison]; provide defense against sharp price fluctuations [D. Allan, Barclays, Jitneytrade, True North]; dampen volatility [BMO NB, CI, Davis Rea, RBC CM, Virtu]; provide an incentive to commit liquidity [BMO NB, CI, Davis Rea, Maison, RBC GAM]
- Incentive is justified given the contribution to market quality [Barclays] and the risks to DMMs in discharging their obligations [NBF]; also, DMM will only have priority over orders that would not have traded but for out-of-the-ordinary price fluctuations [D. Allan, Scotiabank]
- There are parallels with US CCS Program, which has proven to be effective and balanced [CI, Barclays, BBS Securities, True North]
- Not enough information or examples to assess MMC; if intended to facilitate specified outcomes it should be in the form of an obligation, requiring minimum size, etc.; Aequitas should be required to monitor usage to ensure outcomes [TMX]

- Suggestions: bypass orders should be able to bypass MMC orders [BMO NB] and volumes should be limited to level set for MMVA [CFA]
- Aequitas should be provided leeway to refine the functionality over time [Davis Rea]

Aequitas Response

The purpose of the MMC is to provide the DMMs with a capability to dampen price volatility in times of market stress by committing additional hidden liquidity to the book. It is also important to clarify that this functionality will only be available for our own listed securities. The comments indicate general support for this functionality so long as we ensure that it is monitored. Such monitoring is planned as we are aware of the importance of accountability in ensuring that the DMM Program is successful. We have also updated the Trading Policies to provide further clarity around the MMC.

Some detailed comments and suggestions on the MMC program were submitted, and those are set out in the chart attached as Appendix B along with our responses.

OSC Staff Comments

Staff acknowledge the responses and thank all the commenters. We have no further concerns with this functionality.

3. ***Listings and Cross-Listings of Investment Products*** **- comment was requested on the listing requirements for Investment Products.**

Comments

- Generally supportive of implementing protocols and standards with respect to notification to the Commission of listing or cross-listing applications for investment products [D. Allan, BBS Securities, BMO NB, CI, CFA, Davis Rea, Jitneytrade, OMERS, Perennial, RBC CM, RBC GAM, Scotiabank, TD, WDL]
- Same standards should be applied to other exchanges [D. Allan, CI, GLC].
- The process should strike a balance such that it (a) is streamlined in such a way so as to not unreasonably impede the ability to bring products to market [BBS Securities, CFA, Davis Rea, RBC CM]; and (b) allows marketplaces to customize their approach to comply with process standards set forth by the regulator [RBC CM]

Aequitas Response

Aequitas agrees that there should be a protocol respecting cross-listings of novel products where no prospectus has been filed with the Canadian regulators. We have revised the commentary in Section 2.01 of the Listing Manual to require that an issuer applying for a listing without filing a prospectus make a submission regarding whether or not the product is novel. Aequitas will review the submission and discuss the listing application with the securities regulator. While we believe that each exchange should address any regulatory concerns that arise in this context, the approach does not have to be identical but it should be subject to oversight by the securities regulators.

4. ***Emerging Markets Issuers – Gatekeeper Concerns* - feedback was requested on the elements that should be included in Aequitas Neo Exchange's requirements or procedures for EM Issuers.**

Comments

- Supportive of Staff's efforts to improve standards of quality for emerging market issuers seeking listings on Canadian exchanges [RBC GAM, Scotiabank, TD]
- OSC Staff Notice 51-719 is a suitable roadmap to develop policies for EM Issuers [GLC], and EM Issuer policies should be consistent with the OSC Staff Notice [CI, Davis Rea]
- There should be corporate governance requirements for EM Issuers; the boards and officers of EM Issuers need to include those with expertise in both Canadian legal standards and local (to the EM Issuer) requirements [CFA]
- Aequitas should have discretion to develop its own policies [D. Allan, BBS Securities, CI, Davis Rea, Maison, RBC CM], in part to promote competition in the listings space [Maison]
- Listing requirements should generally be consistent across marketplaces [BMO NB, CFA Scotiabank, TMX]
- Aequitas's targeted response to listing emerging market issuers should be made available for public comment [TMX]
- Encourage Aequitas to consider aligning its policies with other exchanges [BMO NB]; exchanges should coordinate their policies [OMERS]
- Until Aequitas implements its own policies, it should not be allowed to list EM Issuers [CFA, RBC CM]
- EM standards are important for investor protection [CFA]
- EM Issuers should be required to meet the same accounting and audit criteria as non-EM Issuers on an on-going basis [CFA]
- EM Issuers need to be able to provide local records and books to Canadian auditors on an ongoing basis [CFA]
- Requirements that the Canadian management and directors of emerging market issuers have the means to test the information being provided to them from their foreign operations would be an important fraud prevention tool [RBC GAM]
- It is important that financial reviews and expert report be provided by institutions registered in Canada and subject to Canadian oversight [BBS Securities]
- Enhanced due diligence should be undertaken when considering the listing of EMIR Issuers to address the inherent risks associated with them [BMO NB]

Aequitas Response

We agree with commenters that emerging markets issuers can raise additional risk based on the quality of disclosure and other factors and that, as a result, additional requirements are appropriate. It has been demonstrated in the past. We will be working on an approach that addresses the potential risks and, in doing so, will consider the comments received. We do not think that the approach for all exchanges must be identical, provided each addresses the risks. If the regulators believe there are specific requirements that should always be in place then they should address this through the rulemaking process. When finalized, our approach will be published for comment and regulatory approval.

OSC Staff Comments

We are satisfied with Aequitas's agreement not to accept applications to list securities of emerging market issuers until it has adopted listing requirements or procedures applicable to these issuers. We thank the commenters for their suggestions of elements that should be included in Aequitas's requirements or procedures for the listing of emerging market issuers.

5. ***Application of the Order Protection Rule* - feedback was requested on (a) application of OPR to the Neo Book and (b) application of OPR to new marketplaces.**

Comments on the proposed OPR amendments

- Applaud CSA's sensitivity to concerns regard costs associated with current OPR framework [Barclays, ITG] and costs associated with accessing and integrating with Aequitas trading platform [TMX]
- OPR threshold, if applied to new marketplaces, would stifle competition and entrench incumbent exchanges and ATSs [Barclays, True North]; would preclude competition for the majority of passive agency flows due to the proposed new client priority rules [ITG, True North]; only new marketplaces that cater to HFTs would be able to emerge and gain market share [ITG, True North]
- Markets should first achieve some level of success or offer some unique and compelling value proposition instead of adding fragmentation for slightly different versions of rebate driven pricing models, and this is what is motivating OPR Amendments [ITG]
- Support proposed OPR threshold [TMX]
- Proposed OPR Amendments would do nothing to control costs associated with larger marketplaces' implementation of costly and controversial changes to their data and trading platforms; for example, the implementation of Quantum XA by the TMX [ITG], and do not do enough with respect to the high cost of market data [True North]
- The costs of connecting to a new marketplace are not that large [True North]
- The Proposed OPR amendments would not solve the challenge of fragmentation [RBC CM, True North]
- OPR should be rescinded altogether, relying on best execution, and then new and incumbent exchanges would compete based on the merits of their structure alone [Raymond James]; ultimately, best execution will dictate where orders are routed despite any OPR changes [OMERS]

Comments on the application of OPR to the Neo Book

- Support for applying OPR for a variety of reasons, including that latency randomization deserves a chance and this would be an excellent test [KOR Group]; applying a speed bump and higher fees to LSTs creates a level playing field, helps ensure fair trading practices and counters existing HFT advantages without unduly harming HFTs [D. Allan, Barclays, BBS Securities, CI, Davis Rea, GLC, IGM, KOR Group, Maison]; speed bump and higher fees do not substantially impact access [CSTA, PSP]; latency and fee differences already exist in the market today [BMO NB]; no public interest objective would be served by allowing trade-throughs by LSTs [Wildeboer]; per the OSC, the treatment does not violate fair access rules [CFA, CI, A. Fell, IGM, WDL, Wildeboer]; and to oppose the application of OPR in the Neo Book is to condone HFT [D. Allan]

- Not appropriate to require LSTs to route orders to a marketplace that does not treat their orders the same as all others [Chi-X, NBF, Scotiabank, TD, Virtu]; acknowledgement of irony in having HFTs forced to trade at a speed disadvantage with higher fees [Scotiabank]
- Option of not routing active retail and institutional orders to the Neo Book due to perceived advantages given to passive HFTs [TD]
- If not applicable to Neo Book, then Staff should also consider not applying OPR to other displayed books where dealers are forced to route orders while a class of participants has a systematic advantage [BBS Securities]
- The decision to support or connect to a trading book where not all participants are treated equally should be left with customers and not be driven through a regulatory mandate [Chi-X]
- OPR should either apply to all participants in the Neo Book or should not apply to Neo at all [TMX]

<u>Comments on the application of OPR to new marketplaces</u>

- Existing rules should apply; it would be premature to apply non-approved regulatory changes to Aequitas; early application would violate due process [D. Allan, Barclays, BBS Securities, Perennial, BMO NB, CFA, CI, CSTA, Davis Rea, A. Fell, GLC, IGM, ITG, KOR Group, Maison, NBF, OMERS, Perennial, PSP, Raymond James, RBC CM, RBC GAM, True North, Virtu, WDL, Wildeboer)
- Outcome (timing and content) of amendments is not certain [BMO NB, CFA, CI, KOR Group, RBC CM, Wildeboer]
- Application was made under the current framework and it would be unfair to impose a new standard [Barclays, GLC, Scotiabank, Wildeboer]; Aequitas is innovative and has a unique value proposition – should be protected [Barclays, Maison, Virtu, Wildeboer]; if the OPR Amendments are eventually implemented, Aequitas will need to conform, just like all other marketplaces [CFA, GLC, IGM]
- There are complexities arising from implementing on an interim basis [ITG, Wildeboer]
- It would be anti-competitive and against the stated goal of fostering competition and innovation [BBS Securities, CI, IGM, ITG, Wildeboer]; under proposed UMIR 5.3 Client Priority rule changes, Aequitas would be deemed an inferior marketplace for agency order flow versus all other lit venues currently in operation [ITG]
- Costs and complexities that derive from the establishment of a marketplace are exaggerated [D. Allan] and justified given the goals of Aequitas [D. Allan, Maison]
- Current rules should apply, but a moratorium should be imposed on connectivity and data fees until the 5% threshold is met [BMO NB]
- Aequitas should be distinguished from other new marketplace applications to avoid other venues attempting to submit applications to obtain protected status prior to implementation of the amendments; however, if Aequitas' launch and implementation of the OPR Amendments are close in time, then Aequitas should be unprotected [Scotiabank]
- Changes in OPR should be finalized prior to the approval of any new marketplaces [CIBC WM, CSTA, TMX]
- Given the complexity and related costs to dealers, Aequitas' launch should be delayed until after the implementation of the OPR Amendments [TD, TMX], or the amendments should be applied to Aequitas on an interim basis [TD]; counterproductive for participants to connect if the requirement to do so is reversed shortly thereafter [TD, TMX]

- Although applying the Proposed Amendments to Aequitas would not be appropriate because it would be inconsistent with due process and would cause complexities in implementation, the OPR review should be completed prior to approving Aequitas [TMX]

<u>Aequitas Response</u>

Most commenters that responded on this issue were supportive of the application of OPR to the Neo Book. We do not believe the application of OPR to LSTs in the Neo Book is different, in any meaningful way, from the application of OPR to non-HFTs in any of the existing displayed markets in Canada. LSTs are simply put on similar footing to other traders and have a similar opportunity to access quotes. It is common in today's equity markets, with OPR applying to all displayed venues, for long term investors to not have certainty of fills and to be charged higher prices than others trading the same securities. We feel these are reasons to look at structural issues and pricing; they are not reasons on which to base a determination of whether to apply OPR to a marketplace. As noted by many commenters our speed bump does not impact fair access and, hence, it is appropriate that the Neo Book is awarded protection. Although we acknowledge that the circumstances must be evaluated based on the principles (and we reiterate that the only thing we will be doing is slowing down IOC orders from those with a speed advantage to level the playing field), we also note that from a practical perspective, sophisticated trading firms have consistently demonstrated that they can pick and choose the marketplaces on which they trade, regardless of OPR.

The vast majority of commenters did not believe that the proposed OPR amendments should be imposed on Aequitas prior to their finalization and needless to say, we share this view. Based on discussions with many industry participants it is clear that there is a general view that the outcome and the timing are not certain. It would not be fair to tie the launch of any new marketplace to the outcome of a complex CSA initiative and it would set a precedent that could have significant consequences.. In light of all of this we can only assume that commenters suggesting that our launch be delayed until completion of the OPR amendments are unaware of the uncertainty or see an opportunity to cause a delay, or both.

<u>OSC Staff Comments</u>

Staff agree that the Neo Book is differentiating different types of market participants by applying speed bumps and higher fees to the LSTs. As we indicated in the Notice, it is our view that the different treatment of LST orders in the Neo Book does not unreasonably prohibit, condition or limit access to the Neo Book. Staff agree that OPR should apply to the Neo Book despite this difference in treatment. In addition, we agree that OPR, in its current form, should apply to new marketplaces while the policy is being reviewed.

Trading-related comments

The main focus for most of the commenters who provided detailed responses was on trading-related aspects of Aequitas. Significant comment was received regarding market making, segmentation and complexity, which are addressed below. There were also a number of related comments on the proposed market structure. Due to the volume of detailed comments, the remaining comments about these specific topics and those relating to market structure generally, can be found in chart form in Appendix B with our responses.

Comments on market making

- Agreement with approach to/alignment of obligations/risks of market makers against benefits [D. Allan, Barclays, BBS Securities, Brookfield, CI, Clarkson, A. Crosthwait, A. Fell, ITG, Jitneytrade, Maison, M. McKenzie, PSP, RBC CM, True North, WDL]
- Level of transparency in the application is appropriate [RBC CM, True North]; regulators should require more transparency from other exchanges as well [True North]
- DMM program resulted from extensive consultation with user committee [PSP]
- A key risk for market makers is the ability to unwind trades given the presence of HFT and the benefits only apply if the market maker is quoting at the best price [BBS Securities]
- It is difficult to comment on whether obligations and benefits are balanced for DMMs without full disclosure of all the details [CFA, Chi-X, CSTA, NBF, RBC GAM, TD]
- More information is needed about: the MMVA allocation methodology and determination of the threshold [CIBC WM, CSTA, TMX]; how securities will be allocated to DMMs [CIBC WM, CSTA]; performance assessment, including frequency and degree of public disclosure and sanctions for non-performance of DMMs [CFA, CSTA, Scotiabank]; which securities will have a DMM [CSTA]; the performance bonus and issuer support program [Chi-X]
- It is difficult to know whether the 15% MMVA metric is at the right level or what the proper level of compensation should be/whether the effect will be a net benefit; such experimentation in incentives is healthy [KOR Group]
- The MMVA may result in the ability to disproportionately influence the market for a period of time and crowd out other investors [CCL, CIBC WM, TD, TMX]
- Aequitas will be incentivized to monitor its market making program to ensure that the rewards are appropriately balanced with the obligations [ITG, KOR Group, PSP]; the governance structure will help to ensure balance [Brookfield, CSTA, Davis Rea, Perennial, RBC CM]
- It will be important for the Commission to ensure that Aequitas monitors the effectiveness of the market making program [A. Fell, KOR Group, OMERS]

Aequitas Response

Despite suggestions to the contrary, we believe that the description of the types of obligations and benefits provided in our application put commenters in a position to make a reasonable assessment. While we intend to disclose all details on an ongoing basis, we believed it was premature to do so at the time of publication which was too far in advance of our launch. Additional information would not only have been unusual in the context of similar market quality functions (details that have not traditionally been disclosed by other exchanges in Canada regarding market maker obligations), but we also felt it would distract from the consideration of the DMM program in its entirety. More importantly, regardless of the level of detail provided, as acknowledged in a few of the comments, it is not possible to make any conclusive projections of whether the obligations and benefits are balanced because actual trading data is necessary, for the reasons set out below.

There are two facets to the obligations imposed on a DMM: 1) quoting obligations per security to provide a continuous two-sided market defined by specific metrics re: size, spread, and presence at the NBBO, and 2) responsibility for a broad range of securities with proportionately the same number of liquid and illiquid securities. So in terms of obligations, any given DMM will have hundreds of assigned securities for which it will have to provide continuous two-sided markets. Also, for each security, it will also have to make markets in both the Lit Book and Neo Book simultaneously.

To balance these obligations we have proposed to give a DMM priority on its orders in its assigned securities up to 15% of the daily traded volume. In addition to the actual size obligations imposed on the DMM, it will have to commit visible liquidity to the Lit Book and Neo Book at the price level where the security is trading in order to take advantage of this benefit.

The DMM program has been developed with significant input from our advisory committee that includes buy-side, dealers and market makers, from whom we received feedback that 15% is a good starting point. It should be noted that on NYSE, for example, the DMM will get 33 1/3 % of all incoming orders. We have taken a unique approach that does not involve order fragmentation, but there are several other precedent setting examples in the US equity and options markets where different forms of pro-rata trading for market makers have been adopted. It is key to our proposal to understand that from the DMMs' perspective they will be exposed to position risk in illiquid securities and will be weighing the benefits in relation to their whole assignment.

As noted above, it has always been our intention to operate the DMM program transparently, including publishing DMM performance statistics as well as a Code of Conduct for DMMs. Ultimately, if the data shows that the obligations and benefits are not balanced, it is in our interest to ensure that we adjust the obligations and/or benefits. This will be reinforced by our governance model whereby a majority of our owners are buy-side institutions and issuers. We will also be reporting on DMM obligations vs. benefits to the Commission under the terms and conditions of the Recognition Order. As a general principle we support transparency and monitoring and are encouraged by the OSC's request for data, much of which we intend to make public, and we hope that other marketplaces will follow suit.

<u>OSC Staff Comments</u>

As we indicated above, staff are of the view that benefits for DMMs in the Dark Book are not justified. The Trading Policies have been revised accordingly. Regarding the market making program as a whole, it is difficult to assess, in the absence of trading data, whether the benefits and obligations are commensurate and whether they are set at the right level. We will monitor the market making program of the Aequitas Neo Exchange and, as noted above, have amended the recognition order to require the exchange to provide certain statistics and analysis. At that time, we believe that sufficient data will be available to enable us to make an assessment of the proportionality of the benefits and obligations.

A number of very detailed comments and suggestions on the DMM program were submitted, and those not covered here are set out in the chart attached as Appendix B along with our responses.

<u>Comments on segmentation and associated issues re: the speed bump and the LST definition</u>

- The approach to segmentation represents a significant regulatory change and may set a precedent for segmentation in the future [CSTA, OMERS, Scotiabank, TMX]
- Latency randomization could have a positive impact by reducing gaming around time priority [CIBC WM]; the concept deserves a chance in the equities markets, and Aequitas provides an excellent opportunity to test this idea [KOR Group]
- The speed bump should/could be applied to all incoming orders similar to what has been done by IEX [KOR Group, Scotiabank]
- There are concerns about subjectivity and appropriateness involved in the monitoring and enforcement of LST definition [CFA, CCL, Chi-X, CIBC WM, A. Croswait, TMX] and about the effectiveness and potential for abuse of the definition [Chi-X, Scotiabank, TMX]
- The Aequitas argument for applying this speed bump to LSTs is compelling, in its vision of creating a level playing field, and potentially eliminating one of the primary motivations for the increasingly destabilizing “latency race to zero” [KOR Group]

Aequitas Response

Segmentation. In response to the issues raised regarding order flow segmentation and claims that this aspect of our solutions could adversely impact market quality and market integrity, we stress that we do not agree that the functionality relating to LSTs is properly characterized as segmentation, nor should it raise any fair access or other market integrity concerns. Other than in the Dark Book, where we will provide for a limited form of segmentation that mirrors functionality already present in the market, we are simply reducing the importance of time, giving those market participants who do not have a speed advantage the opportunity to compete on a more even playing field. Our solutions are designed with a primary focus on the investor and issuer, and through targeted measures are seeking to curb predatory HFT strategies, which only cause excessive intermediation. Although it may appear that we are adding to fragmentation by introducing another marketplace, we believe that our functionality has the potential to actually reduce trade fragmentation which will ultimately benefit dealers, investors and issuers.

Order flow differentiation is present in our markets in many forms. Since different market participants are driven by different objectives, marketplaces compete for flow through fees and features. Although we might be the first marketplace to put in place market structure solutions based on a speed-categorization of participants, examples of fees and features that cause order fragmentation and potential information leakage are widespread. For example, inverted fee structures attract certain types of active flow from dealers seeking rebates, the participation model for registered traders allows them to interact more often with retail, broker attribution pre- and post-trade contains information about who is buying and who is selling, etc. Although we recognize that our exchange, just like any other marketplace, will attract certain types of flow and patterns will emerge over time, we believe that many of our solutions will actually protect the information from being derived and abused. It is not possible to predict which order will trade next in our books due to our matching priorities and the DMM model. The market-by-price display in the Neo Book will limit pre-trade information about who is active in the book.

We are committed to building an exchange that provides significant benefits for investors and issuers, and we will be developing quantitative metrics to help demonstrate our value and to further refine our models.

Speed bump. We do not believe in a one-size-fits-all approach and applying a speed bump to everyone defeats the purpose of leveling the playing field, as those with a speed advantage will still have an advantage. We are, instead, trying to ensure that those who trade through a member's infrastructure are placed on an even footing with those who use co-location facilities when it comes to trading on opportunities they see in the market. Our solutions to curb predatory HFT strategies should not be compared with the IEX model in the US as their speed bump serves a different purpose: IEX is a dark pool and they have implemented a 350 microsecond delay on all incoming and outgoing messages in order to ensure that their NBBO is accurate the time they match the trades.

Definition of LST. Our objective in creating the LST definition was to separate those who have a speed advantage from those who do not. As a core component of our determination of who is LST, we have always viewed co-location as a key factor. In response to comments, we have changed the definition: it has been simplified to capture proprietary trading that is using co-location facilities. The revised definition is narrower and easier to comply with. In either case, our monitoring would be able to identify use of speed-based strategies in our books. Even with simplistic metrics like order-to-trade ratios, message rates and active trading patterns (e.g. how quickly after a price change does an active trade occur) it will be very hard for a participant to avoid being detected. However, we believe the revised definition makes the monitoring process and compliance with the definition even more straightforward.

OSC Staff Comments

Access to the Neo Book

Staff agree that the Neo Book, through the application of speed bumps, would differentiate the access of marketplace participants on the same marketplace. As we indicated in the Notice, we have reviewed the model in light of the comments received and in light of the fair access provisions in National Instrument 21-101 Marketplace Operation. We continue to be of the view that, while the access to the Neo Book is different for the types of marketplace participants, no group of participants is unreasonably restricted or limited from accessing this book.

Definition of LST

We noted the comments received regarding the proposed definition of LST. We agree that the original definition was broad and could have included Trader IDs that were not necessarily associated with speed-based trading strategies. We also agree with the commenters that noted that it would have been difficult for Aequitas Neo Exchange to effectively monitor the appropriateness of the categorization of LST and Neo Traders. We are of the view that the revised definition adequately addresses the comments received. We have reviewed the process for monitoring the categorization as LST or Neo Traders by Aequitas Neo Exchange and are satisfied that it is adequate.

Additional comments were submitted, and they are set out in the chart attached as Appendix B along with our responses.

Comments on complexity of the Aequitas model

- Concerns re: complexity and fragmentation [BMO NB, CCL, Chi-X, Scotia, TD, TMX]
- Recognize the need for two lit marketplaces given the reality of the maker/taker model in order to attract both active and passive investors [BMO NB]

- Support for the proposed market structure/new tools, i.e. latency randomization, preferencing changes, size-time priority, market-by-price in the Neo Book, etc. [BBS Securities, BMO NB, CIBC WM, CSTA, ITG, KOR Group]
- Complexity benefits HFT / more sophisticated traders [Chi-X, TD, TMX]
- Greater complexity requires greater education [Chi-X]
- Overly complex model will lead to high implementation costs [CIBC WM, TD, TMX]
- Aequitas structure strikes a balance between predatory strategies and other electronic trading strategies that can be extremely beneficial to the markets [BBS Securities]

<u>Aequitas Response</u>

As a basic principle applied to all industries, technology creates efficiencies but it also creates complexity by creating new alternatives and ways to do things. Creating new offerings or solutions can cause two issues: additional technological integration efforts and the need to learn how to best leverage the diversity of choice being offered at a business level.

Technological integration.

From a technical point of view, we are using industry standard protocols and have simplified access to our services to the extent possible. Although we have multiple books, all are accessible through a single FIX connection, and all market data is distributed on a single multicast feed. Therefore, deciding which book to send an order is as simple as setting the book identifier on the FIX order entry message. Furthermore, most of the market structure solutions that make our proposal unique are handled inside the exchange engine and therefore are unobtrusive to the market participant. The matching priority in the Lit Book is a good example of this whereby the priority rules are simply determined by the Trader ID through which the order was sent, and is not a characteristic of the order itself. In our follow up discussions with industry participants, many have noted that their concerns over technological integration complexity are largely driven by recent experiences with new venues and systems. We have taken an approach that, to every extent possible, strives to minimize the impact on vendors and dealers.

Diversity of Choice.

The business complexity, when considered carefully, is not the multiple books, but rather the fact that we are putting in place a solution that would operate very differently from other Canadian marketplaces. We are deviating from the current status quo in an attempt to create a solution that will benefit the end investor and issuer as well as align dealers and clients' interests. It is true that market participants will have to figure out is how to tune their smart order routers and how to optimize their trading strategies to best take advantage of our solutions. While this will require the allocation of some resources within participants, it should be part of the ongoing review of the market environment and how to best achieve best execution for clients as changes occur in the capital markets. This process happens not only when new books are introduced but also when new order types or changes in the environment occur. We expect that ultimately the benefits of this type of complexity that arises from having more choices in execution will outweigh the costs.

Given the evolving nature of the markets, we also hope that the challenges of integration and new trading functionality are an expected part of doing business in an evolving environment that needs to address issues and identify solutions for market participants. All current marketplaces' models have complexity that caters to the HFT needs. Our model has complexity that caters to investor and issuer needs.

We believe that complexity can be found in numerous forms – in order types, functionality and, as noted above, in the way access is made available. The marketplace commenters that raised the issue of complexity have, similarly to most other existing marketplaces in Canada and the U.S., numerous types of orders and functionality and technology solutions. For example, in addition to the more standard order types, Chi-X Canada has: mid peg, post-only, Chi-X Canada sweep, primary peg, hidden, minimum quantity, pegged offset, x-berg, cancel/replace and sweep and cross orders. TMX Group has four venues trading equity securities with similar functionality that in most cases could be offered through one marketplace although, following our application, they have proposed to simplify this structure. We make these observations primarily to make the point that the markets have evolved and marketplaces have a range of products and services that cater to a variety of users, from sophisticated to unsophisticated. Not all users need to use or even understand all functionality, but it is there to provide tools and choice.

OSC Staff Comments

Staff acknowledge the comments regarding market complexity and the concern that Aequitas Neo Exchange would contribute to it. We note that market complexity is the result of a number of factors, including market evolution, increased use of technology, the sophistication of market participants, the speed at which transactions occur and competition for liquidity and order flow.

Please see our responses to the detailed comments that were submitted, in the chart attached as Appendix B.

OSC Staff Comments

Staff have reviewed the detailed comments, the responses provided by Aequitas Neo Exchange and, where applicable, resulting revisions to the Trading Policies. We are satisfied with the answers provided by Aequitas Neo Exchange.

Listings-related comments

Many comments on the listings-related aspects of the Aequitas application were in the form of suggestions and we thank commenters for taking the time to provide them. The summary of these comments and our responses are set out below.

Comments regarding Aequitas' Approach to Listing

- Supportive of approach, for many reasons, including: the simplified listing process [Sprott, Maison, WDL]; that it eliminates unnecessary exchange discretion [Sprott]; that competition in the listings space will put pressure on fees [Pacific Rubiales, True North, Maison]; the issuer-centric approach [Pacific Rubiales]; the resulting differentiation/competition between exchanges [M. McKenzie, True North, D. Allan, BBS Securities, Perennial, PSP]; that it promotes quality listings [PMAC, Brookfield, Maison, Perennial]; that the corporate governance requirements go above and beyond those of the TSX [RBC GAM, CCGG]; that having different requirements for different kinds of products is responsive to current market [D. Allan, BBS Securities, Maison]
- Concern that Aequitas does not propose to approve most transactions prior to completion, based on the view that the review of transactions assists in preventing certain issuers from avoiding application of an exchange's rules and fosters investor confidence in the market, and there is often no adequate remedy for the harm that may have occurred to the market and security holders [TMX]

Aequitas Response

Implied in the stated concern is the assumption that we will not review transactions because we do not approve them. We will review filings, which include all corporate actions such as additional offerings, take-over transactions, and acquisitions. Our review will, in fact, focus on our listing requirements and will include checks such as whether the applicable shareholder and board approvals have occurred. The review will generally be done before a transaction is finalized so that issues can be identified early in the process. Thus we do not believe there will be any investor confidence issues or that we will lack adequate remedies. It is also important to note that our approach is consistent with that taken by many exchanges in North America.

OSC Staff Comments

As a senior Canadian exchange, Aequitas will play an important role in the regulation of its listed issuers. We believe that the "approval" model of listed-issuer regulation is not the only appropriate model of listed-issuer regulation in Canada. It is incumbent on Aequitas to implement a vigorous and meaningful review of filings by its listed issuers.

Comments regarding listings standards

- Listing standards should be identical/consistent for classes of issuers and regulatory differences should not be permitted, and issuers should be subject to similar exchange oversight when undertaking certain transactions [BMO NB, TMX]

- Aequitas has not taken a "race to the bottom" tack and, in fact, has done the opposite and incorporated corporate governance requirements above and beyond those contained in the listing requirements of the TSX, and the OSC should protect the investing public by ensuring that exchanges not be permitted to compete on the basis of offering issuers less onerous governance requirements [CCGG]

<u>Aequitas Response</u>

There are currently different exchanges in Canada with different requirements (TSX, TSXV and CSE). Some may argue that this is only appropriate to ensure that requirements are tailored to different types of issuers, but there has been little impetus to update the listing function as the markets have evolved. Without competitive pressure, there is little to drive improvements. We subscribe to the same view as CCGG that competition has in the case of governance led to higher standards. Exchanges are allowed to set listing standards in order to enable them to differentiate their offerings. These standards are subject to regulatory oversight and do not require that every exchange be identical.

<u>OSC Staff Comments</u>

While we agree that it is not necessary for requirements to be identical for classes of issuers, we believe that issuers listed on a "senior" Canadian exchange should be subject to robust standards.

<u>Comment regarding IIV</u>

- The IIV requirement is of concern, since many ETFs are not well-suited to such requirements given their unique, composite structure; also, IIV may not be meaningful and cause confusion for investors [PMAC]

<u>Aequitas Response</u>

We have reconsidered our approach based on the comment process and are removing the IIV requirement.

<u>Research or Investor Relations listing standard</u>

Aequitas is commended for incorporating investor relations requirements, but the following are concerns [CIRI]:

- The Qualified Analyst requirement is an unreasonable requirement given that the decision to initiate and maintain research coverage by an independent, third-party sell-side analyst is completely beyond the control of the issuer.
- The investor relations budget proposed is insufficient and should be increased in order to make the function meaningful.
- The Listing Manual includes "research" as one of the acceptable investor relations expenses. If "research" refers to company paid research, the commenter does not find this to be an appropriate investor relations expense given that such research may not be impartial. The commenter finds the term "research" too vague and feels that further clarification is required.
- The above two proposed listing requirements are required for only a one-year period, which is inconsistent with good investor relations. The establishment of a relationship between an

issuer, existing shareholders and potential new investors is an ongoing and continuous process and should not be time-limited.

- Reporting structure and transparency of the function.

<u>Aequitas Response</u>

We believe there was a misunderstanding that the described research would always be required. The issuer can satisfy the requirement by indicating that there is coverage or that there is an investor relations budget that meets the requirement. We have revised the Listing Manual to increase the budget to $50,000 and to make this requirement an ongoing requirement. We do not intend to establish any requirements regarding reporting structure but will rely on CIRI as the industry association to promote best practices.

<u>OSC Staff Comments</u>

We have no further concerns with these requirements.

<u>Governance</u>

Aequitas has incorporated corporate governance requirements above and beyond those contained in the listing requirements of the TSX [CCGG]; Additional comments [CCGG]:

- The majority voting requirements found in the Proposed Listing Requirements which provide that resignations tendered by directors that have received less than a majority of the votes cast in favour must be accepted by the board absent ‘exceptional circumstances’.
- Introducing the concept of ‘Unrelated Directors’ to the Proposed Listing Requirements because it acknowledges the centrality of an independent board to a healthy corporation and beyond that to a well-functioning capital market.
- The clarity that the Proposed Listing Requirements provide with respect to when shareholder approval is required in connection with prospectus offerings.
- The requirements for independent board membership are to be commended, however, that the Proposed Listing Requirements should go further and stipulate that listed issuers should have a board with a majority of Unrelated Directors.
- Supportive of the requirements for having Compensation, Nomination and Corporate Governance Committees that are composed of a majority of Unrelated Directors (or, alternatively, that the matters dealt with by those committees are approved by a majority of the board’s Unrelated Directors).
- The Proposed Listing Requirements should go further and stipulate that these key committees should be wholly independent.

<u>Aequitas Response</u>

Aequitas has recognized the value of independent directors through its requirements; however, we believe that the quality of directors is the most important criterion and that independence is only one of the criteria for establishing an effective board. There may be issuers which, due to the nature of the business, would benefit more from industry experience or other criteria such as diversity. Therefore we have set a minimum number of independent directors to allow the issuer and its nominating committee to determine the right mix. Similarly, it may be useful that some subcommittees have expertise that makes 100% independence less appropriate.

OSC Staff Comments

We have no further concerns with these requirements.

Governance suggestions

The following changes were also suggested [CCGG]:

- separation of chair of the Board and CEO
- clarifying regular in camera sessions
- adding board diversity as a criteria to be considered by the Nomination Committee
- any rights plan of an issuer listed on the exchange should contain a shareholder approval mechanism whereby if a majority of the outstanding shares are tendered into a takeover bid then the bid must remain open for a further 10 days to allow remaining shareholders to tender
- certain conditions should be attached to superior voting shares before a company with dual class shares can be listed and whether this discount on share issuance is too large
- prohibiting issuers from paying intermediaries only if they obtain votes in favour of management's recommended director nominees during a contested director election
- requiring that every listed issuer hold an advisory annual "say on pay" vote to help to bring Canada more in line with governance practices in these countries and also level the playing field among Canadian issuers

Aequitas Response

We thank CCGG for providing these suggestions. We have revised the Listing Manual to reflect the following changes: clarifying *in camera* sessions, adding board diversity as criteria, prohibition on issuers paying intermediaries only if they obtain votes in favour of recommended nominees. We intend to set up an issuer-focused advisory committee and will review the remaining recommendations with that group to determine if additional changes are appropriate.

OSC Staff Comments

We thank CCGG for their comments.

TMX specific comments

- Concerned about general discretion (1.03), which is addressed above
- Has issues regarding management of listed issuers and review criteria (2.07); the basis for granting exemptions to foreign issuers (2.08); the timeframe for notice filing (should be specified rather than "immediate") (4.01 and 4.02); the process for handling financial hardship applications (10.10(2)); and time frames for suspensions and procedures for appeals (1.03(2) and 12.01).
- Sponsorship requirements should be added to S. 2.11

- Consideration should be given to the limited treatment of insiders (4.02); and lack of ability to intervene in regards to coattail provisions (10.19)

Aequitas Response

Many of the comments relate to operational policies which are generally not published because of their procedural nature but also because, for regulated entities, they are subject to oversight reviews by the regulators. Thus, the TMX does not publish its decision-making criteria nor has it published the results of those decisions. The application of the operational criteria and especially the exemption process are, however, subject to review by the regulators. Nonetheless we intend to have transparency around the exemption process and will make propose changes to the Listing Manual when we see common fact patterns giving rise to exemptions.

As to management of listed issuers (2.07), we clarify that our requirements are in fact the same as TSX in that we do require PIFs. The equivalent to sponsorship is covered in our requirements in S. 2.11(2)(b). As to coattail provisions we believe that issue is covered because you cannot list additional securities without a review.

OSC Staff Comments

We have considered these comments and will review the operational procedures prior to implementation and the application of the procedures as part of our oversight

Appendix A – List of Commenters

- AGF Investments Inc. (Kevin McCreadie) [**AGF**]
- David G P Allan
- Barclays Capital Canada Inc. (Bruce Rothney) [**Barclays**]
- BBS Securities Inc. (Bardya Ziaian)
- BIOX Corporation (Chris Clinning)
- BMO Nesbitt Burns (James Ehresperger and Rizwan Awan) [**BMO NB**]
- M. Scott Bratt
- Brookfield Asset Management (Kelly Marshall) [**Brookfield**]
- Brownstone Asset Management (Mario Vachon) [**Brownstone**]
- Kelly Butt
- The Canadian Advocacy Council for Canadian CFA Institute Societies (Cecilia Wong) [**CFA**]
- Canadian Coalition for Good Governance (Donald F. Reed) [**CCGG**]
- Canadian Investor Relations Institute (Yvette Lokker) [**CIRI**]
- Canadian Security Traders Association, Inc. [**CSTA**]
- Vincent L. Chahley
- Adam J Chambers
- Chi-X Canada [**Chi-X**]
- CIBC World Markets Inc. (Thomas Kalafatis) [**CIBC WM**]
- CI Financial (David Pauli) [**CI**]
- Clarkson Centre for Board Effectiveness (Professor David R. Beatty) [**Clarkson**]
- Connor, Clark and Lunn (Jenny Drake) [**CCL**]
- Cricket Media (Miles Gilburne)
- Ali Crosthwait
- Davis Rea Ltd. (John O'Connell)
- Excellon Resources Inc. (Brendan Cahill)
- Anthony S. Fell
- FlexITy Solutions Inc. (Peter Stavropoulos)
- GLC Asset Management Group Ltd. (Ron Hanson) [**GLC**]
- G. Alan Hutton
- IGM Financial Inc. (Murray J. Taylor) [**IGM**]
- ITG Canada Corp. (Doug Clark) [**ITG**]
- Surendra Jeyarajan
- Jitneytrade Inc. (Jean-Francois Sabourin) [**Jitneytrade]**
- Jones, Gable & Company Limited (DM Ross) [**Jones Gable**]
- John Kearney
- KOR Group LLC (David Lauer)
- W.D. Latimer and Co. (Stephen Fontaine) [**WDL**]
- D. Keith MacDonald
- Maison Placements Canada Inc. (John R. Ing) [**Maison**]
- McEwen Mining (Robert R. McEwen)
- Margaret McKenzie
- National Bank Financial (Patrick McEntyre, Etienne Dubuc, Nicholas Comtois) [**NBF**]
- Omers Capital Markets (Brent Robertson) [**OMERS**]
- Pacific Rubiales Energy (Peter Volk) [**Pacific Rubiales**]
- Perennial Asset Management Corp. (Murray Belzberg) [**Perennial]**
- Robert G. Peters
- Portfolio Management Association of Canada (Katie Walmsley, Scott Mahaffy) [**PMAC**]
- Prospectors & Developers Association of Canada [**PDAC**]
- Public Sector Pension Investment Board (Daniel Garant) [**PSP**]
- Raymond James Ltd (Andrew Foote)
- RBC Capital Markets (Stephen A. Bain) [**RBC CM**]
- RBC Global Asset Management (Daniel E. Chornous) [**RBC GAM**]
- RMP Energy Inc. (John W. Ferguson)
- Scotia Capital Inc. (Evan Young and Sean Kersey) [**Scotiabank**]
- Sprott Inc. (Eric Sprott)
- TD Securities (David Panko) [**TD**]
- TMX Group Limited (Kevan Cowan) [**TMX**]
- True North Vantage (Daniel Schlaepfer) [**True North**]
- Virtu Financial LLC (Chris Concannon) [**Virtu**]
- Wildeboer Dellelce LLP [**Wildeboer**]

Appendix B – Summary of Detailed Comments and Responses

If we have failed to note and provide a response to a specific concern, please reach out to us for further clarifications.

Detailed comments relating to the Designated Market Maker program

Comment	Who	Response
Market makers play an important role for investors and issuers/for liquidity/in market stabilization and countering volatility	D. Allan, Clarkson/ Brookfield, M. McKenzie, True North/CIBC WM, KOR Group, Maison, Sprott, True North	We share this view.
Market makers are critical for newly listed securities	Brookfield, True North	We share this view.
Quoting depth and multiple price levels is an important service to the market	KOR Group	We share this view.
Implementation of market making systems leads to increases in liquidity; reductions in bid-ask spreads, transaction costs and price volatility; and improved daily turnover, as well as impacting investor confidence	Barclays/Sprott, True North	We believe the DMM Program is an important step in achieving these objectives.
Concerns that broker preferencing and MMVA will increase the difficulty of smaller dealers to trade	CSTA	We do not believe the MMVA will change the impact of broker preferencing on smaller dealers, nor that our model will negatively impact smaller dealers, but will analyze trade data and make adjustments to the model if necessary.
Concerns that the DMM program is only attainable for the technologically advanced participant and not the "traditional market maker"; concerns over conflicts when assigning securities to shareholders	TMX	In order to make markets in hundreds of securities a certain level of automation is required and that is no different for our marketplace. What is different is that our MMVA model ensures trade participation without having to compete on speed which makes the program attainable to those with a range of technology solutions beyond than those used by HFTs. Since we will be publishing our DMM list and the DMMs' performance it would be difficult to preference our shareholders without drawing considerable attention – including from our (majority) non-dealer shareholders. Further, we will have conflicts policies that will govern our dealings with our shareholders
Concerns that the MMQ will allow DMMs to automatically avoid incoming orders that are not priced at the NBB and NBO making obligations inaccessible in practice	CSTA	The functionality is no different than that for any other pegged order types; the MMQ was simply a two-sided version. However, since the interest in this functionality has been low, given that most market making systems already manage this internally, we have decided to remove the functionality.
Suggestion that the MMVA and other benefits should only be available to DMMs if they fulfill their obligations	CSTA	We think this idea has merit and will incorporate it in our DMM program. If a DMM fails to meet the obligations for a particular security, the MMVA benefit will be removed the following day and only reinstated once the DMM has maintained the obligations for a

		full day again.
Suggestion that the obligations should be segmented for different periods of the day to manage the relative value of the benefits to trading at different point in the day	CSTA	We prefer to handle this though our DMM Code of Conduct and analyze trading data before we make any adjustments to the model.
Additional suggested improvements regarding which metrics should be emphasized; balancing benefits with size requirements; evaluating across securities of different classes to ensure benefits are available in liquid securities only if the DMM satisfies obligations in less liquids; whether average daily volume is the appropriate measure/consideration of depth obligations	CSTA/Virtu	We thank commenters for these suggestions and will consider them once we have trading data that will allow us to analyze the impact of the various metrics and measures.
The DMM program will kill the electronic intermediation that has developed through market forces and replace it with a form of intermediation that can only exist through protection by the marketplace; market makers will use priority rights to step ahead of natural orders	CCL	We strongly disagree with the first statement. The electronic intermediation that has developed through market forces is concentrated in the securities that need the least liquidity support. Our DMM program is designed to ensure that there is liquidity support across the entire spectrum of securities. Striking the right balance between obligations and benefits is critical to this and, as pointed out above, this is something that we will monitor closely (and that our governance model will make sure is adjusted, if necessary). Further, the markets for liquid securities are currently heavily intermediated and there is little support for the illiquids. A formal market making model is the only alternative that allows monitoring and adjustments to ensure that the balance is right. One of the issues in recent years has been that there has been little monitoring or adjustments to the existing market making model.
MMC should be considered a benefit for the DMM and as such they should have an obligation to use it if the intended purpose is to dampen price volatility	TMX	We disagree and feel it would be inappropriate to mandate the use of this feature for the DMM to provide additional capital on top of the obligations they already have to provide visible liquidity. This functionality is new to the Canadian market and to most market makers so we would like to monitor it before making any changes.
There should be a minimum size requirement for the MMC	TMX	Given how the MMC is designed we do not see the purpose of this. As the MMC only will come into play at a price level if there is sufficient volume to complete the incoming order it will always have to be of a certain size to be relevant.
It should be possible to bypass MMC	BMO NB	This is, in fact, how it will work. Bypass orders will not interact with MMC. The Trading Policies have been updated to clarify this.
The MMC should be limited to volumes not greater than the MMVA	CFA	We are a bit unclear about this comment as we don't see how the two would be related. For the sake of clarity: the MMC is not included in the MMVA calculation.
Allowing MMC inside the NBBO would allow DMMs to systematically trade with "small"	CSTA	We appreciate that the CSTA brought this to our attention as this was an unintended consequence of the MMC functionality. We will remove the ability to have MMC inside

incoming orders and avoid large orders		the NBBO, and the Trading Policies have been updated accordingly.

Detailed comments relating to the issue of "segmentation"

Comment	Who	Response
Price discovery, market integrity and market quality is negatively impacted by restricting or constraining access	Chi-X, CCL	We disagree with this broad statement as we do not restrict or constrain access for anyone, nor do the commenters provide any analysis as to why they claim our solutions would have this effect. Our market structure solutions are designed to improve the experience for investors and issuers and we intend to back that statement up with quantitative analysis.
Concerns about improving market quality by penalizing orders from HFT participants instead of using incentives	Chi-X, Scotiabank	Our solutions are designed to curb specific predatory strategies which we believe are detrimental to market quality. We are not penalizing HFT participants at large and believe that most non-predatory strategies will not be affected by the measures we are putting in place to level the playing field. This is the benefit a solution that is not a "one-size fits all".
Increased cost for dealers, vendors and marketplaces	Chi-X, CSTA, Scotiabank, TMX	As discussed in the complexity section below, our technical solution is very straightforward and would argue that the notion of complexity is overstated and probably exacerbated by recent experiences.
The Neo book has a stronger form of segmentation than inverted markets, but trades on the Neo book are priced at the NBBO with no price improvement and or rebate which creates an outsized structural advantage for passive HFTs	TD	Again, we disagree with the categorization of "segmentation", for the reasons set out above. With regards to comment that the Neo Book provides an outsized structural advantage to the passive HFT, we submit that this is an incorrect statement as it is not based on a view of our solutions as a whole. We are building a marketplace that rewards sizable liquidity provision and where those liquidity providers, regardless of the type of firm, have some protection from predatory strategies. We would hope that this would lead to all liquidity providers becoming more comfortable posting greater size, which in turn will be a direct benefit to the liquidity seeking investor. The average trade size of markets with inverted fee structures demonstrates that these lead to further trade fragmentation, which is a logical consequence of their intent to act as an order detection mechanism. The trade/size component in the Neo Book order matching model demonstrates we seek the opposite.

Detailed comments relating to market structure

Comment	Who	Response
More information required about speed bump and where it is applied	CIBC WM	The speed bump applies only to incoming IOC orders from LST participants. The speed bump is applied at the gateway level which means that the IOC order is only released into the matching engine after it exits the speed bump at which point it is treated like any other IOC

		order.
The speed bump should apply in all books	BMO NB, CSTA	The differentiated books are intended to encourage natural investors to post and take liquidity at prices they are comfortable with through the various mechanisms including priority and the speed bump. We don't want to hinder anyone in doing so. Further, liquidity providers forego the additional protection in the Lit Book but benefit from the rebate. Different books cater to different needs.
The passive preferencing of Neo Trader orders should apply in all books	BMO NB, CSTA	The two books serve different purposes and we do feel that introducing passive preferencing for Neo Trader orders in the Neo Book and Dark Book would conflict with the size-time priority, which is intended to reward those prepared to commit sizable liquidity to the book. We appreciate the suggestion, though, and will further analyze the suggestion when we have sufficient trade data.
The Lit Book should also only have market-by-price display	BMO NB, CSTA	The Lit Book was designed to be an alternative to other Canadian lit books with the difference that the natural investor gets passive matching priority over those with a speed advantage. To deviate too much from what is currently the norm in the Canadian market would not meet our objectives, but this is an idea we would entertain over the longer term.
Bypass orders should be introduced to allow participants to sweep visible books when putting up crosses through the quote	BMO NB	Bypass orders are supported in both the Lit Book and the Neo Book, but intentional crosses (bypass or not) have to be entered into the crossing facility where there is no cross interference.
Question regarding the need for two displayed books	BMO NB, CSTA, WDL, TD	We will be operating in an environment where maker-taker and taker-maker pricing is prevalent. We are concerned that some functionality/fee-based incentives cannot be effectively combined, so the two different books are being developed to serve different purposes. Even though we are proponents of removing maker-taker pricing altogether, in the current environment, in order to attract certain types of passive natural investor flow it is necessary to offer a book with maker-taker pricing. However, the Lit Book is not “just another maker-taker venue” as we are attempting to address one of the biggest issues with this pricing model: conflicts of interest between dealers and their clients. By offering a make-take trading book where natural investors have matching priority we increase the likelihood of investors trading passively in the book instead of having to cross the spread. Further, the matching priorities for natural investors in the Lit Book and a speed bump for active LSTs in the Neo Book were created to work in combination to help curb predatory trading strategies and improve market quality.
Complexity benefits HFT / more sophisticated traders	Chi-X, TD, TMX	As discussed above in the section about complexity on page 10-11, our solutions have complexity that caters to investor and issuer needs; we disagree with this statement as it relates to our solutions.
More information about the size-time priority	Scotiabank	The Trading Policies have been revised to provide more clarity around how size-time priority works.
Suggestion that the Dark Book should allow	Scotiabank	We appreciate the suggestion and understand the need for reducing message traffic by

for immediate mid-point matching		avoiding having to ping for liquidity. We will discuss this with our user committees.
Placing broker preferencing ahead of Neo Trader and size-time forces investors to use dealers that control the largest market share	Chi-X	The impact on broker preferencing on execution quality is something we intend to analyze once we have sufficient data. We will discuss this with our user committees. However, it is an issue that the regulators have identified and it is a central feature of Canadian equity market trading. While it remains in place at most venues, it would be very challenging for a new marketplace to build volumes without including it as a feature as we have seen demonstrated to date.
Having the pegged orders work differently depending on security adds unnecessary level of complexity	Scotiabank	We appreciate the feedback and will take it into consideration. The decision to implement pegged orders this way was driven by the fact we do not believe the most liquid securities need visible pegged order support and that it would only contribute to unnecessary message traffic. We will discuss this with our user committees.
Fee reduction for active retail flow results in little benefit to the end investor unless the savings are passed on	Chi-X	We are not in a position to comment on the dealer's business model, but reduced fees for the dealer should in one way or another positively impact the end investor.
Derived orders are an effective tool for HFT to enable quote fading in the exchange engine	TD	We disagree with this comment and do not understand how the commenter draws this conclusion. We do not believe derived orders would be that interesting to HFTs as each order would be subject to the rules and fees of each particular book, which would conflict with most HFT strategies that incorporate the fee in their quoted price. We note, however, that we will not be proceeding with derived orders at this time.
The primary beneficiaries of the Aequitas design are the passive HFTs	TD, TMX	The beneficiaries of our model are those that provide sizable and sustainable liquidity, which does not in any way preclude HFTs. Reliable liquidity will in turn benefit the end investor.
Passive HFT strategies are not addressed by the proposal	TD, TMX	Our market structure is designed to address certain types of predatory HFT strategies which we believe are detrimental to market quality – and not all HFTs, nor all HFT strategies. This is done through a combination of passive preferencing of Neo Trader orders in the Lit Book and speed bumps and size-time matching in the Neo Book. Passive HFT strategies that are good for the market (like market making) are both rewarded and protected from certain predatory strategies.
Suggestion that there should be a possibility on an order basis to opt-out of being treated like a Neo Trader to avoid information leakage	CSTA	Although we don't agree that there should be a concern about information leakage, all of our market structure solutions that differentiate between Neo Trader and LST are based on the Trader ID that is sending the order. It is therefore possible in an order management system to implement the option of using a Trader ID classified as LST in order to accomplish this.
Suggestion that the contra selection in the dark book is abolished to avoid information leakage	CSTA	We would like to clarify the difference between an LST and a Neo Trader, because the commenter is making the assumption that all Neo Traders are either institutional or retail investors. Although a Trader ID classified as retail is strictly retail, all others are just "not LST". That is, it could be flow that is mixed with retail or proprietary flow that is not latency sensitive. From that perspective we would argue that our implementation is no different than the IntraSpread model with the exception that the only thing you know for sure is that

		your active counterpart is definitely not an LST.
Concerns about the fact that the Neo Book displays price improving orders at the NBBO	CSTA	In the Neo Book all price improving orders are visible orders with their volume displayed at the NBBO. We believe this is a valuable feature for the investor who is willing to show size and provide price improvement. Active order senders will see more liquidity and will have the opportunity to get price improvement. All trades occur at the price level at which they are posted.
Suggestion that Aequitas would have to file a separate proposal to trade large sized orders in common equities at the touch	CSTA	As noted by the commenter our proposal is within the regulatory framework. We, however, appreciate the feedback and will bring this specific issue to our user committees.

Other comments

Comment	**Who**	**Response**
Letters of general support	AGF, BIOX, M. S. Bratt, Brownstone, K. Butt, V. L. Chahley, A. J. Chambers, Cricket Media, Excellon Resources, FlexITy Solutions, G. A. Hutton, S. Jeyarajan, Jones, Gable & Co., J. F. Kearney, D.K. MacDonald, McEwen Mining, Pacific Rubiales Energy, R.G. Peters, PDAC, RMP Energy, Sprott	We thank these commenters for their support and are very pleased to acknowledge that stakeholders who usually have not participated in the debate, like issuers, have started to voice their concerns and opinions about the issues the Canadian equity markets are facing.
The OSC should be required to approve and oversee the deployment of the Consolidated Market View ("CMV") in order to ensure that all dealers are treated fairly	Chi-X	As pointed out by the commenter, this was not part of the application; however, we are happy to briefly address this. The CMV is a technology service intended to consolidate data from different sources. Requiring regulatory oversight of such a service would be equivalent to asking the OSC to oversee market data vendors. Furthermore, concerns about fairness are unfounded and based on certain incorrect assumptions which will be clarified once we have an opportunity to proceed with this initiative. As can be seen in our comment letter on the OPR proposal, one of the key

		issues we see that lie beneath several of the competitive barriers in our markets and what forms the cornerstone of any best execution policy is the lack of consolidated market data for all users at an economically acceptable price - and that is something we intend to address.